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Agenda Item 18

September 14, 2011

TO: MEMBERS OF THE BOARD OF ADMINISTRATION

- I. **SUBJECT:** Separate State Employer Contribution Rates for CSU
- II. **PROGRAM:** Retirement
- III. **RECOMMENDATION:**

That the Board approve the adoption of the following employer contribution rates for the State plans effective October 1, 2011.

| State Plan | Proposed Employer Contribution Rate for Pay Periods Between October 1, 2011 and June 30, 2012 |
|---|---|
| State Miscellaneous Tier 1 Non-CSU | 17.117% |
| State Miscellaneous CSU Tier 1 | 20.939% |
| State Peace Officers & Firefighters Non-CSU | 27.302% |
| State Peace Officers & Firefighters CSU | 30.484% |

IV. ANALYSIS:

In the 2010-2011 fiscal year, negotiations took place between the State and employee labor groups that resulted in an increase in member retirement contributions for most State employees with the most significant exception being California State University (CSU) employees. Following these agreements, last December the Board adopted new lower employer contribution rates for the State plans that reflected the higher member contribution rates.

Last November, prior to these lower rates being adopted by the Board, Department of Finance sent a letter to CalPERS requesting that separate employer contribution rates be established for CSU employees. At the time, CalPERS responded to the letter saying we would not ask the Board to approve rates that would be inconsistent with the language of Section 3.60(a) of the Budget Act, which did not then contain language for separate rates for CSU employees.

When the budget was passed earlier this year, Section 3.60 was amended to allow for separate employer contribution rates to be set CSU employees. Please see Attachment 1 for a copy of the Section 3.60.

A discussion of potential separate contribution rates for CSU took place last May during the meeting of the Benefit and Administration Committee (BPAC) as part of agenda for State contribution rates for fiscal year 2011-2012. Since the budget had not passed yet at that point, the Board did not take any actions on this issue.

On August 31st, 2011, CalPERS received another letter (Attachment 2) from the Department of Finance requesting that separate employer rates be set for CSU employers because CSU employees have not bargained for an increase in member contributions. Even though the language of Section 3.60 now specifically separates out CSU from the other State groups, this still does not require CalPERS to set a separate contribution rate for CSU.

From a funding perspective, setting separate rates for CSU is not going to impact the funding of the system. As currently recommended, we expect that having separate rates will result in State employers having to contribute \$50 million less for the remainder of the fiscal year and CSU employers having to pay \$50 million more.

In accordance with the Board policy approved in August 2010, the proposed employer contribution rates will be effective October 1, 2011. Please see Attachment 3 for a table comparing the employer contribution rates currently in effect for pay periods between July 1, 2011 and September 30, 2011 to the proposed employer contribution rates that will apply for pay periods between October 1, 2011 and June 30, 2012.

Note that the proposed employer rates shown in Attachment 3 are at variance with the separately calculated rates presented to BPAC in May. The proposed rates have been calculated to reflect the impact of taking three months of blended CSU and non-CSU rates and allocating the under/over charging contribution amounts respectively and placing them over the final nine months of the fiscal year.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic or Annual Plans but is part of the regular and ongoing workload of the Actuarial & Employer Services Branch.

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